North Carolina State University Swap Guidelines

This policy will govern the use by the University of interest rate swap transactions for the purpose of hedging existing and planned bond issues.

I. Authority

The University has the statutory authority to enter into swap transactions and related agreements. The Board first authorized the University to enter into a Master Swap Agreement in 1999. The Board has authorized the University to enter into Master Swap Agreements as part of the approval process for bond financings.

II. Purpose

As part of its liability management program, the University may enter into swap transactions. By utilizing swaps in a prudent manner, the University can take advantage of market opportunities to reduce debt service cost and interest rate risk. The University shall not enter into swap transactions for speculative purposes.

III. Legality/Approval

In order to enter into a swap transaction, the University must receive: 1) approval from the Board, and 2) an opinion acceptable to the market from a nationally recognized bond counsel firm or general counsel that the agreement relating to the swap transaction is a legal, valid and binding obligation of the University and that entering into the transaction complies with applicable state and Federal laws.

IV. Form of Swap Agreements

Master swap agreements entered into by the University shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement and such other terms and conditions including schedules and confirmations as deemed necessary by an Authorized Representative.

V. Methods of Soliciting and Procuring Swaps

In general, swaps should be completed with firms with provider credit ratings of at least "A" category from at least two nationally recognized credit rating agencies. Like the bond underwriting process, an Authorized Representative of the University may procure swaps by negotiated method as long as, in light of the facts and circumstances, doing so will promote the University's interests by encouraging and rewarding ongoing service and innovation to the University.

VI. Management of Swap Transaction Risk

Certain risks are created when the University enters into any swap transaction. In order to manage the associated risks, guidelines and parameters are as follows:

Counterparty Risk

In addition to the "A" category ratings, a collateralized approach is considered an additional benefit to the University. However, it is not required. Collateral will consist of cash, U.S. Treasury securities and Agency securities. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between University and a provider.

Termination Risk

The termination provisions of any swap agreement shall be bilateral; however, the University shall have the right to optionally terminate a swap agreement at any time over the term of the agreement (elective termination right). In general, exercising the right to optionally terminate an agreement should produce a benefit to the University, either through receipt of a payment from a termination, or if a termination payment is made by the University, a conversion to a more beneficial debt instrument or credit relationship.

Amortization Risk

The amortization schedules of the debt and associated swap transaction should be closely matched to the duration of the swap. Mismatched amortization schedules can result in a less than perfect hedge and create unnecessary risk.

Term Risk (Average Life of Swap Agreement)

In no circumstance may the term of a swap agreement entered into for liability management purposes between the University and a qualified swap provider extend beyond the final maturity date of the affected debt instrument, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

Basis (Index) Risk

Any index chosen as part of an interest rate swap agreement shall be a recognized market index including but not limited to BMA or LIBOR.

Basis risk shall be understood and detailed as part of the approval process.

VII. Reporting Requirements

An annual summary is prepared by the University and included in the financial statements, which are provided to the Board.